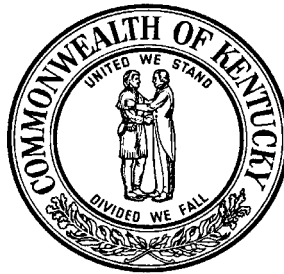


**LETTER FROM THE AUDITOR OF PUBLIC ACCOUNTS
TRANSPORTATION CABINET**

**In Reference to the Statewide Single Audit
of the Commonwealth of Kentucky**

**For the Year Ended
June 30, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

TABLE OF CONENTS

MANAGEMENT LETTER.....	1
LIST OF ABBREVIATIONS/ACRONYMS	3
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	5
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	6
FINANCIAL STATEMENT FINDINGS	8
<i>Reportable Conditions Relating to Internal Controls and/or</i>	
<i>Reportable Instances of Noncompliance</i>	<i>8</i>
FINDING 05-TC-1: The Transportation Cabinet Should Strengthen Logical Security Controls Over The Transportation Information Payroll System	8
FINDING 05-TC-2: The Transportation Cabinet Should Improve Inventory Procedures For Maintenance Materials	9
FINDING 05-TC-3: The Transportation Cabinet Should Implement Procedures To Ensure An Accurate Conversion Of Data To New Systems	11
FINDING 05-TC-4: The Transportation Cabinet Should Implement Procedures To Ensure The Integrity Of The Highway Information System Database.....	12
FINDING 05-TC-5: The Transportation Cabinet Should Improve Data Retention Practices	14
FINDING 05-TC-6: The Transportation Cabinet Should Improve Audit Trail Procedures For Database Actions	15
FINDING 05-TC-7: The Transportation Cabinet Should Adhere To State Law Regarding Voting Leave And Follow Up On Possible Violations.....	16
<i>Other Matters Relating to Internal Controls and/or Instances of Noncompliance</i>	<i>23</i>
FINDING 05-TC-8: The Transportation Cabinet Should Ensure Adequate Logical Security Controls Are In Place Over The Trns*port SiteManager System	23
FINDING 05-TC-9: The Transportation Cabinet Should Improve Disaster Recovery Procedures.....	24
FINDING 05-TC-10: The Transportation Cabinet Should Establish Policies To Govern Logical Access Controls For Information Technology Coordinators	26
FINDING 05-TC-11: The Transportation Cabinet Should Ensure That All User Account Names Are Ambiguous And Password Restrictions Are Consistently Applied	28
FINDING 05-TC-12: The Transportation Cabinet Should Ensure That All Open Ports On Agency Machines Have A Business-Related Purpose	30
FINDING 05-TC-13: The Transportation Cabinet Should Ensure That Security Information Leakage For Agency Computer Devices Is Minimized	34
FINDING 05-TC-14: The Transportation Cabinet Should Ensure That All Web Servers Have Updated Software And Security Patches Installed.....	35

TABLE OF CONENTS
(Continued)

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS	37
<i>Reportable Conditions Relating to Internal Control and/or</i>	
<i>Reportable Instances of Noncompliance</i>	37
FINDING 05-TC-15: The Transportation Cabinet Should Ensure All Federal Expenditures Are Allowable.....	37
FINDING 05-TC-16: The Transportation Cabinet Should Improve Procedures To Ensure Federal Reports Are Prepared Accurately	38
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	41



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Bill Nighbert, Secretary
Transportation Cabinet

MANAGEMENT LETTER

KRS 43.090 (1) requires the Auditor of Public Accounts, upon completion of each audit and investigation, to prepare a report of all findings and recommendations, and to furnish copies of the report to the head of the agency to which the report pertains, and to the Governor, among others. This KRS also requires the Transportation Cabinet to, within 60 days of the completion of the final audit, notify the Legislative Research Commission and the Auditor of Public Accounts of the audit recommendations it has implemented and those it has not implemented and any reasons therefore. We are providing this letter to the Transportation Cabinet in compliance with KRS 43.090.

The work completed on the Transportation Cabinet is part of the overall opinions included in the audit of the Commonwealth of Kentucky's Comprehensive Annual Financial Report (CAFR) and Statewide Single Audit of Kentucky (SSWAK). Findings and recommendations for agencies, audited as part of the CAFR and SSWAK, if applicable, can be found in the Statewide Single Audit Report. This report can be obtained on our website at www.auditor.ky.gov.

In planning and performing our audits of the Commonwealth for the year ended June 30, 2005, we considered the Transportation Cabinet's internal control over financial reporting and compliance with laws, regulations, contracts and grant agreements in order to determine our auditing procedures for the purpose of expressing opinions included in the audit of the CAFR and SSWAK and not to provide an opinion on internal control or on compliance.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The SSWAK is a separate report dated March 9, 2006 and contains all reportable conditions and material weaknesses in the Commonwealth's internal control structure and also contains all reportable instances of noncompliance. This letter does contain the Transportation Cabinet's findings and our recommendations that have been extracted from the SSWAK report along with other matters that have been identified.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Bill Nighbert, Secretary
Transportation Cabinet

We will review the status of these comments during our next audit. We have already discussed many of these comments and suggestions with various Transportation Cabinet personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Included in this letter are the following:

- ◆ Acronym List
- ◆ Schedule of Expenditures of Federal Awards
- ◆ Notes to the Schedule of Expenditures of Federal Awards
- ◆ Findings and Recommendations
- ◆ Summary Schedule of Prior Year Audit Findings

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 9, 2006

LIST OF ABBREVIATIONS/ACRONYMS

AASHTO	American Association of State Highway and Transportation Officials
APA	Auditor of Public Accounts
BCP	Business Contingency Plans
BDC	Backup Domain Controller
BMS	Bridge Maintenance System
CAFR	Comprehensive Annual Financial Report
CDE	Chief District Engineer
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
COT	Commonwealth Office of Technology
CPES	Contactor Pay Estimate System
DRP	Disaster Recovery Plans
eMARS	enhanced Management Administrative Reporting System
FBI	Federal Bureau of Investigation
FHWA	Federal Highway Administration
FY	Fiscal Year
GOT	Governors Office of Technology
HIS	Highway Information System
Highways	Department of Highways
ID	Identification
IG	Inspector General
ITCs	Information Technology Coordinators
KAR	Kentucky Administrative Regulations
KBIS	Kentucky Bridge Information System
KRS	Kentucky Revised Statutes
KTC	Kentucky Transportation Cabinet
KYBMS	Kentucky Bridge Maintenance System
KYTC	Kentucky Transportation Cabinet
LSA	Local Security Authority
MARS	Management Administrative Reporting System
NBIS	National Bridge Information System
OIG	Office of Inspector General
OMB	United States Office of Management and Budget
OMS	Operations Management System
OS	Operating System
OT	Office of Technology
PDC	Primary Domain Controller
PMS	Pavement Management System
PS&E	Plans, Specifications, and Estimates
RACF	Resource Access Control Facility
RPC	Remote Procedure Call
SEFA	Schedule of Expenditures of Federal Awards
SMTP	Simple Mail Transfer Protocol
SMUX	Simple Network Management Protocol Multiplex
SSL	Secured Socket Layer
SSWAK	Statewide Single Audit of Kentucky
TIPS	Transportation Information Payroll System

LIST OF ABBREVIATIONS/ACRONYMNS**(Continued)**

TC	Transportation Cabinet
U.S.	United States
USC	United States Code
USDOT	United States Department of Transportation
WSC	Wilkinson Street Campus
XSS	Cross Site Scripting
Y2K	Year 2000

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

CFDA #	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
<u>U.S. Department of Justice</u>				
Direct Programs:				
16.728	Drug Prevention Program (Note 4)	-		
<u>U.S. Department of Transportation</u>				
Direct Programs:				
Air Transportation Cluster:				
20.106	Airport Improvement Program	105		
Highway Planning and Construction Cluster:				
20.205	Highway Planning and Construction (Note 2) (Note 3)	445,480,528		
20.218	National Motor Carrier Safety	123,783		
20.232	Commercial Driver License State Programs (Note 4)	-		
20.505	Federal Transit-Metropolitan Planning Grants	588,657		558,086
Federal Transit Cluster:				
20.500	Federal Transit - Capital Investment Grants	4,520,930		4,520,930
20.507	Federal Transit - Formula Grants	267,965		267,965
20.509	Formula Grants for Other Than Urbanized Areas	6,891,376		6,565,515
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	1,583,453		1,558,453
Highway Safety Cluster:				
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	9,892		
20.605	Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	972,121		
U.S. Department of Homeland Security				
Direct Programs:				
Homeland Security Cluster:				
97.004	State Domestic Preparedness Equipment Support	42,033		
97.036	Public Assistance Grants	2,672,955		
TOTAL TRANSPORTATION CABINET		\$ 463,153,798	\$ -	13,470,949

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Basis of Presentation - OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the *Catalog of Federal Domestic Assistance*. The accompanying schedule includes all federal grant activity for the Transportation Cabinet, except those programs administered by state universities, and is presented primarily on the basis of cash disbursements as modified by the application of Kentucky Revised Statute (KRS) 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. The Commonwealth elected to exclude state universities from the statewide single audit, except as part of the audit of the basic financial statements.

KRS 45.229 provides that the Finance and Administration Cabinet may, “for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The basic financial statements of the Commonwealth are presented on the modified accrual basis of accounting for the governmental fund financial statements and the accrual basis of accounting for the government-wide, proprietary fund, and fiduciary fund financial statements. Therefore, the schedule may not be directly traceable to the basic financial statements in all cases.

Clusters of programs are indicated in the schedule by light gray shading.

Inter-Agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one (1) state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the schedule:

- (a) Federal moneys may be received by a state agency and passed through to another state agency where the moneys are expended. Except for pass-throughs to state universities as discussed below, this inter-agency transfer activity is reported by the agency expending the moneys.

State agencies that pass federal funds to state universities report those amounts as expenditures.

- (b) Federal moneys received by a state agency and used to purchase goods or services from another state agency are reported in the schedule as an expenditure by the purchasing agency only.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Note 2 - Type A Programs

Type A programs for the Commonwealth mean any program for which total expenditures of federal awards exceeded \$20 million for FY 05. The Transportation Cabinet had the following program that met the Type A program definition for FY 05. The Commonwealth identified clusters among the Type A programs by gray shading. The Type A program and cluster was:

Highway Planning and Construction Cluster:		
20.205	Highway Planning and Construction	\$445,480,528

Note 3 - Highway Planning and Construction (CFDA #20.205)

The information reported for this 20.205 Highway Planning and Construction program represents the activity of all open projects during FY 05. These projects were funded from several apportionments. Apportionments refer to a federal, statutorily prescribed division or assignment of funds. The expenditures reflected on the schedule include expenditures for advance construction projects, which are not yet under agreements with the Federal Highway Administration.

Program Income - The Highway Planning and Construction Program earned program income of \$1,745,814 in FY 05. This income was earned in the right-of-way phase through the sale and rental of real property. Income earned in this manner was classified as a negative expenditure, resulting in a reduction to federal expenditures for the current year.

Refunds - Expenditures for the Highway Planning and Construction Program were shown net of any refunds, resulting from a reimbursement of prior or current year expenditures. Refunds totaled \$3,267,825 for FY 05.

Note 4 - Zero Expenditure Programs

These programs had no expenditures related to the respective state organization during FY 05. The zero expenditure programs included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-TC-1: The Transportation Cabinet Should Strengthen Logical Security Controls Over The Transportation Information Payroll System**

Our audit revealed that the Kentucky Transportation Cabinet (KYTC) did not implement adequate logical security controls during FY 05 for the Transportation Information Payroll System (TIPS).

At the time of our testing in October 2004, there were 1,126 active user accounts established within TIPS. We tested 158 user IDs for proper support and authorization. Our testing revealed that 80 of the user IDs were not valid user accounts. The review of these accounts revealed that 56 of the users had retired, left the agency, or no longer needed the access based on job responsibilities. Testing also revealed that 24 of these tested accounts had been incorrectly established within TIPS with the wrong RACF (mainframe) user ID rendering them unusable for TIPS access. These invalid user IDs make up 50.6 percent of the tested 158 user IDs and 7.1 percent of the total population of 1,126 user IDs.

Without sufficient logical security controls in place, the risk is increased for unauthorized access or modification to computer programs and data, destruction of assets, and interruption of services.

Adequate logical security controls are necessary to ensure that unauthorized individuals are not allowed access to a system. All requests for access or privileges to a system should be properly authorized, reviewed, and documented. Further, users' access should be scrutinized periodically to ensure that the access is still valid and necessary. Procedures should be included to ensure security coordinators are notified of transferred or terminated employees with system access rights.

Recommendation

We recommend that the KYTC perform a complete and thorough review of the TIPS system users to ensure all accounts are valid and that proper documentation is on file to support the level of access granted. Supporting documentation for user access should be maintained by the security administrator in a format that is readily available for review should questions arise concerning granted access. Further, we recommend that procedures be developed and implemented to ensure the TIPS security coordinators are notified when employees with TIPS access either transfer from or terminate employment with KYTC.

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-TC-1: The Transportation Cabinet Should Strengthen Logical Security Controls Over The Transportation Information Payroll System (Continued)

Management's Response and Corrective Action Plan

KYTC agrees that the potential of unauthorized access to a system presents a serious risk to system data integrity and security.

- *KYTC will review all accounts to ensure that they are still valid and should be active. The projected completion date is July 31, 2005.*
- *KYTC Division of Technology staff have reviewed and disabled/deleted all accounts that were identified as issues. This was completed May 2, 2005.*
- *In the future, accounts that are inactive for 90 days will be disabled; accounts that have been inactive for 180 days will be deleted. This procedure has been implemented and will be ongoing.*

FINDING 05-TC-2: The Transportation Cabinet Should Improve Inventory Procedures For Maintenance Materials

KYTC has maintenance barns in 12 districts throughout Kentucky. These maintenance barns contain not only heavy equipment used for highway safety, but also necessary supplies and material to keep state roads passable. The amount of inventory in these maintenance barns totaled \$30,360,349 for FY05. Our auditors observed district personnel conduct their inventory to determine if maintenance materials were counted correctly and to determine if inventory management procedures were adequate. KYTC Internal auditors also observed several inventory counts as well and communicated their results to KYTC management.

We issued a comment last year regarding various inconsistencies in the inventory process. These included inconsistent treatment of guardrail systems; unclear responsibilities for items such as antifreeze, oil, grease, etc; several instances where inventory observers had written in additions to be made to the Operations Management System (OMS), but these additions were not added into OMS; and no policies and procedures in place. We have seen improvement in this year's inventory counts. However, there were still a number of problems in some of the districts:

1. A comparison of the actual count to quantities listed on perpetual inventory sheets from OMS revealed numerous discrepancies in quantities recorded, such as inconsistent amounts for pipe bands, guardrails, tires and other inventory items. This leads us to believe that OMS is not being used effectively to track materials on hand.

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-TC-2: The Transportation Cabinet Should Improve Inventory Procedures For Maintenance Materials (Continued)

2. Procedures to count bulk material items such as aggregates and asphalt mixes were not in compliance with stockpile quantity calculation procedures outlined in the 2005 OMS Materials Inventory User's Guide. Instead of measuring items as instructed, amounts were estimated based on how many loads would fit in a dump truck.

The KYTC "Users Guide for Field Personnel" was revised in March 2005. This manual provides details for district personnel regarding inventory maintenance.

Some possible reasons for quantities being inaccurate in OMS are due to the fact that some crewmembers delivering and picking up or using materials don't always inform the timekeeper. When crew members do not inform the time keeper of inventory inflows and outflows, OMS is not updated properly. This could lead to shortages or overages in amounts of inventory in each district.

Some district personnel are simply not following the guide when counting bulk materials and estimating amounts using their own methods that could lead to inconsistent or inaccurate counts.

One of the key objectives of the OMS system is accountability and management of KYTC resources. It takes all employees to ensure the information in OMS is accurate. A memo from the Commissioner of Highways to all chief district engineers dated 12-20-04 states that "the upcoming employee evaluation planning sessions should be used to modify evaluation plans to include a performance expectation for accurate perpetual material inventory record-keeping that can be measured by the fiscal year-end inventory results."

The KYTC "User's Guide for Field Personnel-OMS Materials Inventory" states, "Prior to inventory, items should be organized. Like items should be grouped together in one area and stockpiles should be shaped to make measurements easier. Standard stockpile shapes for bulk materials (rock, salt, etc.) are cone or tent."

Recommendation

KYTC should continue to provide training to timekeepers and district personnel regarding OMS inventory maintenance. Annual employee performance evaluations should include an assessment of compliance with inventory procedures with follow-up actions as warranted. Crewmembers should be reminded to always inform the timekeepers of inventory increases and decreases. District personnel should follow the procedures set out in the OMS Materials Inventory guide for counting stockpiled bulk materials. KYTC internal auditors should continue to conduct annual and possibly even quarterly inventory count observations.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-TC-2: The Transportation Cabinet Should Improve Inventory Procedures For Maintenance Materials (Continued)****Management's Response and Corrective Action Plan**

One of the key objectives of the OMS system is accountability and management of KYTC resources. And to this end, the Department of Highways has instituted a policy that whenever OMS inventories yield unacceptable errors, the District and Garages involved are required to document the cause of these errors and identify measures to correct these variations. Additionally, KYTC's Internal Audit staff has established tolerance levels for different categories of equipment and materials to better define acceptable levels of variation. Emphasis has been placed on inventories by the Commissioner of Highways. The Internal Audit Branch is conducting follow-up reviews at locations with error rates that are unacceptable or out of scope.

FINDING 05-TC-3: The Transportation Cabinet Should Implement Procedures To Ensure An Accurate Conversion Of Data To New Systems

The Department of Bridge Inspections maintains its information in two (2) separate software programs located on two (2) different servers. The authoritative source for bridge information is the National Bridge Information System (NBIS), which is housed on a mainframe computer. However, the department also maintains its own data in the Kentucky Bridge Information System (KBIS), which is in development and is housed on a Windows NT server. Per discussion with Transportation Cabinet (TC) management, this is only temporary; eventually, KBIS will become the authoritative source for bridge information.

This type of situation increases the possibility for errors and discrepancies.

During the process of developing and implementing a new system that is replacing a current system, procedures should be established to ensure the complete and accurate conversion of current system data to the new system.

Recommendation

We recommend that department management ensure KBIS implementation procedures include a procedure to perform a thorough comparison of all data in NBIS and KBIS to ensure the completeness and accuracy of data housed within the new KBIS system.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-TC-3: The Transportation Cabinet Should Implement Procedures To
Ensure An Accurate Conversion Of Data To New Systems (Continued)****Management's Response and Corrective Action Plan**

The KYBMS system was purchased as a small component of a much larger package. After reviewing the system, the Division of Maintenance determined that the amount of customization required to make the KYBMS system useful for our bridge management and inspection programs would be too costly. Likewise, the mainframe system mentioned in the citation is no longer in use.

We are still in transition but have made progress. We have reviewed other bridge inspection and management software and determined that changing to the AASHTO-sponsored PONTIS software will be the future of bridge inspection, data storage and system management. We have purchased the system and are working with the vendor to perform the customization we feel is required to include both the federal and state inspection fields. We anticipate that this system will be on-line by December 2006. At that time, KBIS will no longer be used and PONTIS will be the sole residence of our bridge data.

Currently, we are still using KBIS for our bridge inspection and data storage.

**FINDING 05-TC-4: The Transportation Cabinet Should Implement Procedures To
Ensure The Integrity Of The Highway Information System Database**

The Highway Information System (HIS) maintains data on bridges, as well as all other public roads in the state. The information contained in the HIS database is collected and maintained by various TC divisions. The integrity of the HIS data is dependent upon both the accuracy and frequency with which the data is updated and the users interpretation. It was noted in the prior year audit that there is no time schedule for updating that data. The source of the bridge information is kept on the NBIS server. The Department of Bridge Inspections maintains this data. Per current discussion with management, we noted that it has been several months since the HIS server had downloaded the latest information from NBIS and that no new processes have been implemented to compare the data contained in the HIS server with that contained in the NBIS server.

The agency has stated this was due to a scheduled replacement of NBIS. To date, no additional procedures have been performed to ensure that HIS data has been updated from the current KBIS data. The agency expects to upgrade HIS in the first half of 2004 to actually implement a direct link to KBIS information for HIS users and eliminate the need for KBIS downloads into HIS.

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-TC-4: The Transportation Cabinet Should Implement Procedures To Ensure The Integrity Of The Highway Information System Database (Continued)

When information regarding bridges is not updated periodically, the various divisions within the TC do not have the most recent information for analysis purposes. Specifically, it is important for the Division of Planning, which uses that data in HIS, to have current and reviewed information regarding bridges.

Data integrity control procedures should be established that are adequate to ensure the integrity of the data maintained within the organization's databases. Procedures should be established to ensure that data used by management remains complete, accurate and valid during its input, update, and storage. Further, data elements should be balanced periodically to the control records or master files in the case of data interfaces.

Recommendation

Procedures should be implemented that ensure the integrity and completeness of bridge information provided to HIS users. Until the direct link between HIS and KBIS information is completed, we recommend a current download from KBIS to HIS be performed and data be refreshed at least on a quarterly basis.

Management's Response and Corrective Action Plan

The Division's of Planning and Technology have upgraded the Highway Information System (HIS). Bridge data is no longer duplicated in the current HIS; however, the most current bridge data is available from Bridge Maintenance. To improve our analytical capacity and to help prepare for the migration from KBIS by Bridge Maintenance, the Planning Division has completed a process of locating the bridges on the highway network more accurately. Bridge Maintenance has acquired the PONTIS bridge system, from Cambridge, with a target implementation and production date of December 2007. We have developed and provided Cambridge with a methodology for a link between HIS and PONTIS, which they have agreed to conceptually. This link will be accomplished cooperatively by KYTC, Cambridge, and the Exor Corporation. For this link, the Planning Division will create and populate the fields in HIS by May of 2006. The link will permit HIS users to access current bridge data from PONTIS and enable fields within PONTIS to be automatically updated from HIS.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-TC-5: The Transportation Cabinet Should Improve Data Retention Practices**

Our examinations of the data retention for information maintained within the NBIS and within the Pavement Management System (Visual/PMS) revealed that year-end downloads are not kept for these databases. Information contained in the Required Supplementary Information includes prior year data. Additionally, trend analysis often requires detailed information for prior year data that may not have been included in a separate report.

Failure to retain year-end downloads means there is no practical method to determine or test the records and their corresponding field data for prior years.

Electronic data that provides support for financials included within the annual report should be retained in a manner similar to that required for non-electronic support. This data should be retained as provided for in an approved retention schedule with the Kentucky Department for Libraries and Archives. Master files and electronic data that is considered necessary for an audit trail should be retained as long as necessary for audit purposes.

Recommendation

We recommend the TC ensure they retain year-end downloads for the NBIS and Visual/PMS databases in order to facilitate and substantiate prior year reporting, as well as to provide a detailed backup that can be tested for accuracy in the event clarification is needed. If upgrades to these systems have been or will be implemented, then the TC should ensure the same considerations for data retention are included in the implementation.

Management's Response and Corrective Action Plan

The cabinet still has not fully set up the Pavement Management System from our earlier responses. Restricted funding and requirements to get other systems functioning, including the interface to the new eMARS, have used our funding set aside to fully implement the pavement management system. We hope to have the funding beginning July 1 without other programs in need to complete the implementation. Once that implementation is complete, the new software will have that ability.

Referring to our 2003 response, the KYBMS system was purchased as a small component of a much larger package. After reviewing the system, the Division of Maintenance determined that the amount of customization required to make the KYBMS system useful for our bridge management and inspection programs would be too costly.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-TC-5: The Transportation Cabinet Should Improve Data Retention Practices (Continued)**

Management's Response and Corrective Action Plan (Continued)

We are still in transition but have made progress. We have reviewed other bridge inspection and management software and determined that changing to the AASHTO-sponsored PONTIS software will be the future of bridge inspection, data storage and system management. We have purchased the system and are working with the vendor to perform the customization we feel is required to include both the federal and state inspection fields. We anticipate that this system will be on-line by December 2006. We will work with the PONTIS vendor to ensure that the data is tracked historically through either a year-end download or a built-in data tracking process.

FINDING 05-TC-6: The Transportation Cabinet Should Improve Audit Trail Procedures For Database Actions

Adequate audit trails were not implemented for various databases within TC. Our examination of internal controls over infrastructure assets revealed that no reports are currently generated by TC that show the data attribute changes, records added, and records deleted. In addition, some databases do not contain a field for when the date information was entered or a field identifying the user performing the data entry.

In order to properly track potential data entry errors or other errors in the database, it is important to know when the entry error occurred and the identity of the individual making the entry.

Without adequate audit trails, it is difficult or impossible to determine the exact timing, source, and cause of database data entry errors or unauthorized changes to records. It may also result in the inability to properly recover data in the case of some errors.

Adequate audit trails should be provided to facilitate the tracing of transaction processing and the reconciliation of disputed data. Accounting systems and database management systems should include an audit trail component that includes sufficient information, such as the terminal device or microcomputer involved, user identification codes, data field affected, and time and date entries. TC's system development life cycle methodology should include procedures requiring that each information system development or modification project have adequate audit trails specified.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-TC-6: The Transportation Cabinet Should Improve Audit Trail Procedures For Database Actions (Continued)**

Recommendation

We suggest TC consider adding fields to provide sufficient audit trails of database alterations or security violations, including the date entered and entry person for all changes to the critical databases. In addition, we believe TC should consider generating a nightly report showing all changes to the database that were made each day.

Management's Response and Corrective Action Plan

KYTC has made changes to the Building and Lands Data Base which address the tracking issues cited in the audit. Each data base transaction is recorded in a file which documents the transaction date as well and information changes. Only one employee of the Division of Property and Supply Services has data update authorization access making the identity of the enterer unquestionable. Changes to the Building and Lands Data Base are infrequent and nightly reports are not necessary. On an annual basis, reports are generated which detail current asset inventory, addressing acquisitions, disposals, and adjustments to this inventory base.

KYTC currently has funded in the Governor's recommended budget Archibus inventory software this will provide us with a unified fixed asset tracking solution.

FINDING 05-TC-7: The Transportation Cabinet Should Adhere To State Law Regarding Voting Leave And Follow Up On Possible Violations

During our audit of KYTC we became aware that the Cabinet's Office of Inspector General (OIG) had reviewed compliance with KRS 118.035, 101 KAR 2:102 Section 7, and 101 KAR 3:015 Section 7, related to employee paid voter leave. The OIG report was focused on the May 2004 primary and noted the following:

- 5649 KYTC employees took paid voter leave
- 727 preliminary potential violations were identified (12.8%)
- 535 Did not vote
- 39 Not registered
- 135 Registered, claimed four (4) hours compensatory time due to working the full day, but did not vote

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-TC-7: The Transportation Cabinet Should Adhere To State Law Regarding Voting Leave And Follow Up On Possible Violations (Continued)**

- 18 Not registered, claimed four (4) hours compensatory time due to working full day, did not vote

The preliminary data compiled by the OIG is subject to change. In order to ascertain a final number of employees who may have violated state law and regulation, each identified employee should have been asked to verify voting status. It is possible that absentee votes, precinct changes, etc. could eliminate some potential violations.

The OIG proposed to take additional administrative action to contact employees and ask for an explanation. Employees who, after having the opportunity to provide an explanation and determined to have abused voter leave, could have been requested to use accumulated leave to “repay” for voter leave and have been issued a written notice of violation and possibly more severe disciplinary action for future violations.

The Office of the Secretary and the Office of the Governor stopped OIG from taking any actions on these possible violations.

The total annual payroll for the Transportation Cabinet for FY04 and FY05 was \$275,387,433 and \$253,325,548 respectively, which includes both Road Fund and Federal Funds. 727 possible violations multiplied by four (4) hours reflect up to 2900 hours of work taxpayers did not receive.

KYTC, with knowledge of possible violations, took no action to address these matters and no action to take future corrective action. State law and administrative regulations are clear. Paid voter leave is an employee benefit that should not be abused. The OIG attempted on several occasions to determine why no management action was taken and their report was ignored.

KRS 118.035 (2) states, “As provided in Section 148 of the Constitution of Kentucky, any person entitled to a vote at any election in this state shall, if he has made application for leave prior to the day he appears before the county clerk to request an application for or to execute an absentee ballot, be entitled to absent himself from any services or employment in which he is then engaged or employed for a reasonable time, but not less than four (4) hours on the day he appears before the clerk to request an application for or to execute an absentee ballot, during normal business hours of the office of the clerk or to cast his ballot on the day of the election between the time of opening and closing the polls. The employer may specify the hours during which an employee may absent himself. (3) No person shall be penalized for taking a reasonable time off to vote, unless, under circumstances, which did not prohibit him from voting, he fails to vote. Any qualified voter who exercises his right to voting leave under this section but fails to cast his vote, under circumstances which did not prohibit him from voting, may be subject to disciplinary action.”

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-TC-7: The Transportation Cabinet Should Adhere To State Law Regarding Voting Leave And Follow Up On Possible Violations (Continued)**

101 KAR 2:102 (Classified Service) Section 7 states “(1) An employee who is eligible and registered to vote shall be allowed, upon prior request and approval, four (4) hours, for the purpose of voting. (2) An election officer shall receive additional leave if the total leave for election day does not exceed a regular workday. (3) The absence shall not be charged against leave. (4) An employee who is permitted or required to work during the employee's regular work hours, in lieu of voting leave, shall be granted compensatory leave on an hour-for-hour basis for the hours during the times the polls are open, up to a maximum of four (4) hours.”

101 KAR 3:015 (Classified Service) Section 7 states “(1) An employee who is eligible and registered to vote shall be allowed, upon prior request and approval, four (4) hours, for the purpose of voting. (2) An election officer shall receive additional leave if the total leave for election day does not exceed a regular workday. (3) The absence shall not be charged against leave. (4) An employee who is permitted or required to work during the employee's regular work hours, in lieu of voting leave, shall be granted compensatory leave on an hour-for-hour basis for the hours during the times the polls are open, up to a maximum of four (4) hours.”

Recommendation

KYTC should adhere to state law and regulations on voter leave and follow up on possible violations involving thousands of dollars of Road and Federal funds. KYTC should take administrative action to remind employees of their statutory duty to vote if paid leave is requested. If violations are verified, the KYTC has a duty to take action to address in a timely manner. KYTC Department of Administrative Services should verify compliance with administrative regulations regarding voter leave for each applicable election.

Managements' Response and Corrective Action Plan

The abuse of voter fraud was uncovered by the Kentucky Transportation Cabinet's Office of Inspector General (IG) during its investigation into the use of voting leave in the May 18, 2004 primary election. The results were delivered to then Cabinet Secretary Clay Bailey on January 6, 2005.

As noted in the IG's report, there are various factors that could cause individual findings to be erroneous such as incorrect data entry by county clerk offices, precinct changes, and confusion over absentee ballots. Thus, the Cabinet decided not to pursue this process but instead focus its efforts at ensuring that the situation would not occur in the future.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-TC-7: The Transportation Cabinet Should Adhere To State Law
Regarding Voting Leave And Follow Up On Possible Violations (Continued)****Management's Response and Corrective Action Plan (Continued)**

The Cabinet takes this issue very seriously and is committed to minimizing this problem in the future. We do agree with your recommendation that employees be reminded of their statutory duty to vote if voting leave is requested and taken. However, we also believe the timing of this reminder is critical if we are to be successful in this effort. For that reason, Secretary Nighbert will be sending a memorandum to all employees immediately prior to the May primary election reminding them of their responsibilities under KRS 118.035. We have attached a draft of this memorandum for your file (see below). In addition, all employees will be required to sign the memorandum indicating that they have read it and are fully aware of their responsibility in taking voter leave under KRS 118.035. A copy of each signed memorandum will be placed in each employee's personnel file.

We also plan to follow up with a sample testing of employees following certain elections. Appropriate disciplinary action will be taken against those employees who violate the policy following the distribution of the memorandum.

[Draft below was prepared by Transportation Cabinet]

MEMORANDUM

TO: Kentucky Transportation Employees

FROM: Secretary Nighbert

DATE: May ___, 2006

SUBJECT: Primary Election

In accordance with Kentucky Constitution Section 148, Kentucky Revised Statute 118.035 and the voting leave regulations, 101 KAR 2:102, Section 7 and 101 KAR 3:015, Section 7, all employees who are entitled to vote, otherwise scheduled to work during the hours that the polls are open, and request leave in advance shall be granted four (4) hours of leave to do so. Employees voting absentee may be granted this leave, if an advance request is made on the day they appear before the clerk to apply for the absentee ballot except as noted below. Voting Leave must be used on the day the employee votes unless an emergency occurs where the employee has to work.

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-TC-7: The Transportation Cabinet Should Adhere To State Law Regarding Voting Leave And Follow Up On Possible Violations (Continued)

Management's Response and Corrective Action Plan (Continued)

[Draft below was prepared by Transportation Cabinet]

An investigation conducted by the Office of the Inspector General into the use of Voting Leave in the May 18, 2004 primary election revealed a significant amount of fraud by KYTC employees claiming voting leave and not using it as directed by regulation. The Transportation Cabinet is committed to rectifying the fraudulent use of voter leave and will institute the following procedures. All employees will be required to sign this memo acknowledging that you have reviewed and are fully aware of your responsibility in taking Voter Leave under KRS 118.035 (attached). Additionally, the Transportation Cabinet will conduct periodic audits of voter leave use and appropriate disciplinary action will be taken against those employees who are in violation of KRS 118.035, 101 KAR 2:102, Section 7 and 101 KAR 3:015, Section 7.

KRS 118.035 states that any qualified voter who exercises his right to voting leave but fails to vote under circumstances that did not prevent him from voting may be subject to disciplinary action. An employee appointed to serve as an Election Officer may receive voting leave not to exceed a total of seven and one-half (7.5) hours for the designated election to attend training and for service as an Election Officer, provided that such leave is requested in advance per KRS 118.035(4).

118.035 Hours polls to be open -- Employees to be allowed time off to vote, to apply for or execute absentee ballot, to serve or train to be election officer.

(1) The polls shall be opened on the day of a primary, runoff primary, special election, or regular election at 6 a.m., prevailing time, and shall remain open until each voter who is waiting in line at the polls at 6 p.m., prevailing time, has voted. At 6 p.m., prevailing time, if voters are waiting at the polls to vote, the precinct election sheriff shall announce that a voter wishing to vote must immediately get in line. When all voters waiting at the polls at that time are in line, the precinct election sheriff shall then determine which voter is the last in line, and that voter shall be the last voter permitted to vote. The precinct election sheriff shall wait in line with the last voter who shall be permitted to vote until that voter has voted and shall inform a voter who subsequently arrives at the polls that no one shall be permitted to vote after the last voter in line at 6 p.m., prevailing time. After the last voter waiting in line at 6 p.m., prevailing time, has voted, the polls shall then be closed.

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-TC-7: The Transportation Cabinet Should Adhere To State Law Regarding Voting Leave And Follow Up On Possible Violations (Continued)

Management's Response and Corrective Action Plan (Continued)

[Draft below was prepared by Transportation Cabinet]

(2) As provided in Section 148 of the Constitution of Kentucky, any person entitled to a vote at any election in this state shall, if he has made application for leave prior to the day he appears before the county clerk to request an application for or to execute an absentee ballot, be entitled to absent himself from any services or employment in which he is then engaged or employed for a reasonable time, but not less than four (4) hours on the day he appears before the clerk to request an application for or to execute an absentee ballot, during normal business hours of the office of the clerk or to cast his ballot on the day of the election between the time of opening and closing the polls. The employer may specify the hours during which an employee may absent himself.

(3) No person shall be penalized for taking a reasonable time off to vote, unless, under circumstances which did not prohibit him from voting, he fails to vote. Any qualified voter who exercises his right to voting leave under this section but fails to cast his vote, under circumstances which did not prohibit him from voting, may be subject to disciplinary action.

(4) Any person selected to serve as an election officer shall be entitled to absent himself from any services or employment in which he is then engaged or employed for a period of an entire day to attend training or to serve as an election officer. The person shall not, because of so absenting himself, be liable to any penalty. The employer may specify the hours during which the employee may absent himself. No person shall refuse an employee the privilege hereby conferred, or discharge or threaten to discharge an employee or subject an employee to a penalty, because of the exercise of the privilege.

Effective: February 17, 1998

History: Amended 1998 Ky. Acts ch. 4, sec. 1, effective February 17, 1998. -- Amended 1990 Ky. Acts ch. 26, sec. 1, effective July 13, 1990; and ch. 48, sec. 36, effective July 13, 1990. -- Amended 1988 Ky. Acts ch. 341, sec. 35, effective July 15, 1988. -- Amended 1986 Ky. Acts ch. 287, sec. 12, effective July 15, 1986. -- Created 1974 Ky. Acts ch. 130, sec. 99, effective June 21, 1974.

101 KAR 2:102 Section 7. Voting and Election Leave. (1) An employee who is eligible and registered to vote shall be allowed, upon prior request and approval, four (4) hours, for the purpose of voting.

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-TC-7: The Transportation Cabinet Should Adhere To State Law Regarding Voting Leave And Follow Up On Possible Violations (Continued)

Management's Response and Corrective Action Plan (Continued)

[Draft below was prepared by Transportation Cabinet]

(2) An election officer shall receive additional leave if the total leave for election day does not exceed a regular workday.

(3) The absence shall not be charged against leave.

(4) An employee who is permitted or required to work during the employee's regular work hours, in lieu of voting leave, shall be granted compensatory leave on an hour-for-hour basis for the hours during the times the polls are open, up to a maximum of four (4) hours.

101 KAR 3:015, Section 7. Voting and Election Leave. *(1) An employee who is eligible and registered to vote shall be allowed, upon prior request and approval, four (4) hours, for the purpose of voting.*

(2) An election officer shall receive additional leave if the total leave for election day does not exceed a regular workday.

(3) The absence shall not be charged against leave.

(4) An employee who is permitted or required to work during the employee's regular work hours, in lieu of voting leave, shall be granted compensatory leave on an hour-for-hour basis for the hours during the times the polls are open, up to a maximum of four (4) hours.

I, _____ acknowledge that I have reviewed the Voting Leave memorandum, Kentucky Revised Statute and Kentucky Administrative Regulations pertaining to Voting Leave.

Signature

Date

(Last four SS# Digits)

Auditor's Reply

The Kentucky Transportation Cabinet should resolve completed OIG reports in a timely manner.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-TC-8: The Transportation Cabinet Should Ensure Adequate Logical Security Controls Are In Place Over The Trns*port SiteManager System

During our audit KYTC logical access security for the Contractor Pay Estimate System (CPES), the auditor found established controls were not adequate to ensure only authorized users are provided access to the system. Since the inception of the CPES, an employee's section supervisor has requested user access to the CPES through an e-mail or phone call to a CPES security administrator. Formal access request forms are not used, nor are there consistent procedures implemented for maintaining support for proper authorization of CPES access. The administrators do not consistently maintain or log the logical access request communications. As a result, KYTC management cannot provide adequate documentation to support access provided to users of CPES.

We are aware that CPES is scheduled to be retired in January 2005 when the Trns*port SiteManager system is moved into production. KYTC management has stated that they are in the process of establishing control procedures to formalize the logical access process for SiteManager. These procedures will require a formal request for all new users after implementation that must be completed by the user's supervisor. The original user population at SiteManager implementation will be developed based on verified listings from the districts.

Without maintaining authorization documentation for users established in a system, management cannot definitively support proper authorization for system access provided to users.

Adequate logical security controls are necessary to ensure that unauthorized individuals are not allowed access to a system. Standardized formal security policies and procedures are necessary, especially in situations where security responsibilities are dispersed among several administrators. All system access requests should be properly authorized and documented. This information should be maintained and be readily available for review should there be questions concerning the provision of access rights.

We are aware that the SiteManager system is scheduled to replace CPES in January 2005. Therefore, we are focusing our recommendations toward this new system.

Recommendation

We recommend KYTC management ensure that formalized security control procedures be established for the SiteManager system and that those procedures include, but not be limited to:

- Documentation of the proper authorization of all current users migrated into the new system from CPES
- A formal access request form designed and used for establishing any new users to the system or for changing or terminating access to the system

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-TC-8: The Transportation Cabinet Should Ensure Adequate Logical Security Controls Are In Place Over The Trns*port SiteManager System (Continued)

- A listing identifying those individuals who have the authority to request user access to the system
- A verification procedure by the administrators to ensure that requests are received from authorized individuals
- A procedure for maintaining documentation of proper authorization for system user account additions, changes, or deletions. This documentation should be maintained by the administrator in a format that is readily available for review should questions arise concerning granted access.

Management's Response and Corrective Action Plan

KYTC agrees that it is important to maintain the proper authorization and documentation for access to applications and systems.

- *The documentation and authorization for migration of users from CPES into the new system will be created. The projected completion date is June 1, 2005.*
- *The migration documentation will be sent to the Division of Technology Request Log for action and historical documentation. The Request Log is utilized for all new requests for access to applications, systems, etc., as well as other information technology services. The Request Log process ensures that requests for service are received from the authorized and appropriate individuals. Requests are also stored for archival and audit purposes.*
- *KYTC will also review the Request Log process and update or enhance any procedures that may improve procedures and audit trails. The projected completion date is August 31, 2005.*

FINDING 05-TC-9: The Transportation Cabinet Should Improve Disaster Recovery Procedures

During our review of KYTC for FY 05, the auditors found that the KYTC was exposed to potential risk due to outdated disaster recovery procedures for critical mainframe systems and non-existent recovery procedures for client/server systems.

Prior to the year 2000 (Y2K), all of the divisions, offices, and districts within the agency were requested to develop a Business Contingency Plan of business processes so that the agency would be prepared to deal with potential Y2K problems. The Office of Technology led this process, however, they did not receive cooperation from all areas of the agency. While some plans were developed, there are several that did not have a contingency plan in place. During the Y2K planning KYTC developed disaster recovery

FINANCIAL STATEMENT FINDINGS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 05-TC-9: The Transportation Cabinet Should Improve Disaster Recovery Procedures (Continued)**

plans for mainframe systems noted as being of critical concern to the agency. Again, these plans have not been updated since that time and therefore do not include critical systems added since that time.

KYTC does currently participate in the Commonwealth's Office of Technology (COT) annual disaster recovery test. However, neither the disaster recovery test nor the contingency plans take into account the critical client/server applications. Further, adequate training has not been provided to key individuals involved with disaster recovery procedures.

Failure to maintain an up-to-date disaster recovery plan increases the possibility of loss due to excessive recovery time, costs, and disruption of processing capabilities in the case of a disaster or extended system outage.

Good management practices minimize risks through planning. The goal of a disaster recovery plan is to improve preparedness for extended system outages at minimal cost using available resources. Disaster recovery or Business Recovery Plans should be documented, approved, properly distributed, tested on a consistent basis, and updated as needed.

Recommendation

We recommend that KYTC take the following actions to improve their disaster recovery procedures:

- Request each of the offices, departments, and districts to update, if available, or develop a Business Contingency Plan. These plans should be reviewed and updated annually as necessary to reflect emergency contacts, potential alternative processing sites, system descriptions and process requirements, backup procedures, and planned testing procedures. These plans should be approved and incorporated as part of an overall Business or Disaster Recovery Plan for KYTC.
- The disaster recovery test plan should be reviewed and updated to take into consideration recommendations from the annual COT testing.
- The agency should determine which client/server applications are mission critical. Once this is established, the agency should work in conjunction with COT to develop a formalized Contingency Plan to document recovery and backup procedures. Once a plan is in place, it should be tested periodically and updated as necessary. The client/server recovery plans and procedures should also be incorporated within the overall KYTC Disaster Recovery Plan.
- The KYTC Disaster Recovery Plan should be properly distributed to key personnel and training should be provided to those personnel as needed.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-TC-9: The Transportation Cabinet Should Improve Disaster Recovery Procedures (Continued)

Management's Response and Corrective Action Plan

KYTC agrees that Business Contingency Plans (BCP) and Disaster Recovery Plans (DRP) are critical to continued operation of business and services in the event of a disaster or unplanned event.

- The creation of BCP's by each office, department and district will be a tremendous undertaking. KYTC will initiate the process of reviewing resources to accomplish this task, along with the appropriate prioritization by Cabinet management. The projected completion date is December 31, 2005.*
- KYTC does review and update our plan for mainframe based critical systems on an annual basis. Input from COT is considered and implemented in updated plans. In fact, COT commented in writing after the 2004 test that KYTC staff was very prepared and performed well during testing.*
- KYTC is working with business areas to determine which applications are mission critical and need to be added to the disaster recovery process. The first application that is being reviewed is TRNS*PRT SiteManager. The projected completion date is December 31, 2005.*
- The KYTC disaster recovery plan will be distributed to key personnel. Additionally, KYTC will request additional DRP training from COT. The projected completion date is July 31, 2005*

FINDING 05-TC-10: The Transportation Cabinet Should Establish Policies To Govern Logical Access Controls For Information Technology Coordinators

Our review of logical access control procedures surrounding the local area network within KYTC revealed that consistent formalized security procedures had not been implemented within the 12 highway district offices and the Wilkinson Street Campus (WSC). Information Technology Coordinators (ITCs) are assigned within each of the 12 highway districts and the WSC, all within the Department of Highways (Highways), that have the ability to establish new user accounts at the local offices. After questioning the ITCs concerning their job duties and responsibilities, the auditor found that there were no policies in place to govern their actions. Additionally, the procedures that were in place were not consistently applied by all ITCs.

Currently, most ITCs receive requests for activations, changes, or terminations of accounts verbally or through e-mail from employee supervisors, branch managers, the Chief District Engineer (CDE), or the District Administrative Manager. There is no formal access request form or process to ensure the request is properly authorized. Two of the ITCs stated that they could perform these types of actions without requests being submitted or

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-TC-10: The Transportation Cabinet Should Establish Policies To Govern Logical Access Controls For Information Technology Coordinators (Continued)

other authorization. Further, the requests, when received, are not consistently maintained by the ITCs. Finally, there is no set process for the receiving of information concerning terminated or transferred employees. These notifications were noted as potentially coming from the Office of Technology (OT), the CDE, KYTC Division of Personnel, or the specific office's personnel section.

Logical access control procedures have been decentralized to allow ITCs within the 12 highway districts and the Wilkinson Street Campus act as security administrators at the local office level. Because of the organizational structure of the KYTC, the ITCs do not report to OT, instead they report to the Highways. Therefore, OT cannot require that the ITCs use procedures as set forth at the central level. This situation resulted in inconsistent and incomplete controls for logical access security of the KYTC network.

Formalized policies should be established for controls over logical access to help ensure only authorized users are granted access to the system. These policies should include requirements for management authorization of requests; procedures for requesting new accounts, changes to existing accounts, and termination of accounts; and requirements for maintaining documentation to support additions, changes, and deletions made to user accounts.

Recommendation

We recommend that Highways work in conjunction with the KYTC Office of Technology to establish policies relating to the logical security responsibilities for the Information Technology Coordinators. These policies should include, but not be limited to:

- Use of a formal user account request form that requires signoff by an authorized member of management, which would be used for establishment, deletion, or alteration of a user account
- Maintenance of request forms in either electronic or hardcopy format to allow for review by internal management or auditors
- Flow of procedures for establishing, deleting, and making alterations to user accounts
- Documentation of communication requirement for informing OT of new and terminated employees

FINANCIAL STATEMENT FINDINGS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 05-TC-10: The Transportation Cabinet Should Establish Policies To Govern Logical Access Controls For Information Technology Coordinators (Continued)**

Management's Response and Corrective Action Plan

KYTC agrees that the decentralized support of information technology within the Cabinet causes inconsistent and incomplete controls for access.

- KYTC will begin requiring that all requests for access be sent through the Request Log. By using the Request Log, KYTC will ensure that requests are submitted by the appropriate users. It will also ensure that appropriate access levels are setup. The projected completion date is August 31, 2005.*
- The Request Log process also creates documentation and audit trails for access activities.*
- When KYTC migrates to the enterprise Active Directory framework, ITC's will no longer provide account setup and maintenance support. All this type activity will be provided by the Division of Technology staff. The projected completion date is December 31, 2005.*
- KYTC is also reviewing the options for moving ITC's under the Division of Technology. This will allow the Division to ensure that enterprise and Cabinet policies and procedures are appropriately implemented within the District Offices. The projected completion date is December 31, 2005.*
- The Office of Personnel Management notifies the Division of Technology when employees leave the Cabinet. The Division of Technology does not receive notice regarding internal transfers and the resulting need for changes to access types and levels. The Division of Technology will work with the Office of Personnel Management to create a process that identifies transfers similar to the notifications for departures. The projected completion date is December 31, 2005.*

FINDING 05-TC-11: The Transportation Cabinet Should Ensure That All User Account Names Are Ambiguous And Password Restrictions Are Consistently Applied

During the security vulnerability testing performed for FY 05 on machines owned by KYTC, we identified a primary domain controller (PDC) and a backup domain controller (BDC) for which the default administrator account had not been renamed, and the default guest account had not been disabled. We also identified various user accounts on these machines with password ages that exceeded the established password policy, indicating they are inactive accounts that may not be necessary or that the password policy is not being properly enforced.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-TC-11: The Transportation Cabinet Should Ensure That All User Account Names Are Ambiguous And Password Restrictions Are Consistently Applied (Continued)

We obtained NetBIOS account information from four (4) KYTC machines. Two (2) of those machines were the noted PDC and BDC. To determine if user accounts on those two (2) machines were in compliance with established policies the auditor used the criterion that account passwords with ages over 31-days were non-compliant. There were 403 user accounts established that met this criterion. The passwords on these accounts had not been changed from between 33 to 1589 days. As stated above, the default administrator account had not been renamed on either of these machines and the default guest user account had not been disabled on either machine, even though it had never been used.

Since the default administrator account cannot be locked out, if the account is not renamed it is more easily identifiable and that increases the likelihood the account could become vulnerable to guessed password attempts or brute force password attacks. Further, if the agency's established password policy is not properly enforced, it increases the likelihood that non-compliant user accounts could be compromised, as well as the underlying data accessible by those user accounts.

Default administrator, guest, and anonymous accounts in operating system and applications are some of the first accounts that an intruder will attempt to use. Therefore, they should be assigned strong passwords or, if possible, renamed or removed immediately after installation. Further, intruders often use inactive accounts to break into a network. If an account has not been used for a reasonable period of time, the account should be disabled until it is needed. This minimizes the possibility that an unauthorized user will access the account.

Though these machines may be physically located within the Commonwealth's Office of Technology (COT) and managed by COT, KYTC management is ultimately responsible for the security of KYTC resources.

Recommendation

We recommend that KYTC coordinate with COT to ensure the following actions are taken on machines housing KYTC resources:

- The identified default administrator accounts should be renamed to something more ambiguous in order to prevent unauthorized access.
- The default guest account should be disabled and if necessary, alternative guest accounts should be established with strong passwords.

All accounts on these network machines should be reviewed to determine whether the password has been changed within the last 31 days. These accounts should be evaluated to determine if they are still valid accounts that are required for a business-related purpose. If not, the accounts should be disabled or deleted depending on the necessity of reinstatement of the account. All accounts should be required to comply with established password policies.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-TC-11: The Transportation Cabinet Should Ensure That All User Account Names Are Ambiguous And Password Restrictions Are Consistently Applied (Continued)

Management's Response and Corrective Action Plan

KYTC agrees that the vulnerabilities that were identified on these devices increases the potential risk of unauthorized access.

- The administrator accounts will be renamed. The projected completion date is May 31, 2005.*
- The guest accounts were disabled. This was completed April 25, 2005.*
- These machines are utilized by local officials. We have reviewed all accounts and created a strategy to alleviate these issues. All users will be notified regarding the enterprise password policy. Additionally, accounts that are inactive for 90 days will be disabled; accounts that have been inactive for 180 days will be deleted. Local officials will also be reminded that sharing User ID's is not allowed. The projected completion date is May 31, 2005.*

FINDING 05-TC-12: The Transportation Cabinet Should Ensure That All Open Ports On Agency Machines Have A Business-Related Purpose

During the security vulnerability assessments for FY 05 for machines owned by KYTC, our examination revealed that there were seven machines with ports open that may not have a specific business-related purpose. Due to the large number of issues, we grouped the findings below by port number and application.

Port 13 and 37 - Daytime/Time

One (1) machine was identified as having ports 13 and 37 open. These ports may be enabled, without the owner knowledge, by default for the OS or an application.

Port 80 - HTTP

Two (2) machines were identified as having port 80 open that would not display a website. When no default website page or login request is present, normally this means that no application/web service is running and the port is not needed.

Port 111 - Time

Two (2) machines were identified as having port 111 open. This port is used by the Unix SunRPC service, which is a gateway to a variety of other services. We could not determine the validity of the service and it is a potential Trojan port.

Port 199 - SMUX

Two (2) machines were identified as having port 199 open. This is an obsolete protocol that isn't used anymore. It is possible another service is running here other than SMUX.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-TC-12: The Transportation Cabinet Should Ensure That All Open Ports On Agency Machines Have A Business-Related Purpose (Continued)

Port 443 - HTTPS/SSL

Two (2) machines were identified as having port 443 open but would not display a website. When no default page or restricted logon is required, normally this means that no application/web service is running at the port.

Port 513 - Login

One (1) machine was identified as having port 513 open, which is a login service that if improperly configured, can permit unauthorized access to accounts and commands. Also, secured socket layer (SSL) was developed to correct the insecurities caused by these tools due to their transmitting all content in clear text.

Port 514 - Shell

Two (2) machines were identified as having port 514 open, which is a shell service that if improperly configured, can permit unauthorized access to accounts and commands. Also, as with port 513 above, SSL was developed to correct the insecurities caused by these tools due to their transmitting all content in clear text.

Port 544 - KShell

Two (2) machines were identified as having port 544 open, which is a Kerberos remote shell service. We could not determine the validity of the service.

Port 1526 - (pdap-np)

Two (2) machines were identified as having port 1526 open, which is a Prospero Data Access Port non-private, or an Oracle listener on old Oracle systems. We could not determine the validity of the service.

Port 2301 - CIS

Three (3) machines were noted with port 2301 open, which is Compaq web-enabled management software. One (1) machine would not display the applicable web page, indicating the service is not in use. The other two (2) machines provided excessive system management information that could be accessed anonymously.

Port 2481 - GIOP

Two (2) machines were identified as having port 2481 open, an Oracle listening service. We could not determine the validity of the service.

Port 3181 - bmcpatrolagent

Two (2) machines were identified as having port 3181 open, which is used by BMC Patrol software but can also be a port opened as a back door by viruses.

Port 3333 - decnotes

One (1) machine was identified as having port 3333 open, which is sometimes used as a computer conferencing system port but can be used by spyware and malware.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-TC-12: The Transportation Cabinet Should Ensure That All Open Ports On Agency Machines Have A Business-Related Purpose (Continued)

Port 3339 - anet-1

Two (2) machines were identified as having port 3339 open that appears to be an Anet services port. We could not determine the validity of the service.

Port 5631 - (pcanywhere)

Five (5) machines were identified as having port 5631 open. This port listens on other ports to find other PCAnywhere servers on the local segment. Vulnerabilities may exist in the form of denial of service attacks.

Port 9000 - CS Listener

One (1) machine was identified as having port 9000 open, which is potentially a Sun Java Web Server admin module or a websm admin module. We could not determine the validity of the service and it is a potential Trojan port.

Port 9090 - websm

One (1) machine was identified with port 9090 open, which can potentially be either an AIX WebSM system management server or administrative console port assignment. We could not determine the validity of the service and it is a potential Trojan port.

Port 32780 - sometimes-rpc23

One (1) machine was noted with port 32780 open, which is a service called “sometimes an RPC port on my Solaris box”. We could not determine the validity of the service.

Port 32786 - sometimes-rps25

Two (2) machines were noted with port 32786 open, which is a service called “sometimes an RPC port (mountd)”. We could not determine the validity of the service.

Port 49400 - compaqdiag

Two (2) machines were identified as having port 49400 open, which is used for the Compaqdiag service. This port could be vulnerable to the Cross Site Scripting vulnerability (XSS). These machines displayed the same excessive system information as the two (2) machines noted under port 2301 above.

Port 50000 - DB2

One (1) machine was noted with port 50000 open. We could not determine the validity of the service and it is a potential Trojan port.

The auditor could not determine the necessity of many of these ports being open. Some, however, could be vital in order for KYTC to conduct business. Therefore, the agency should review these ports to ensure they have a business-related purpose. If they are required, then the proper security measures should be taken to protect them from vulnerability and ensure that no excessive system information is provided by any of the services that are retained.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-TC-12: The Transportation Cabinet Should Ensure That All Open Ports On Agency Machines Have A Business-Related Purpose (Continued)

The existence of unnecessary open ports increases potential security vulnerabilities and is an invitation for intruders to enter the system. Further, improperly secured services can provide excessive information to unauthorized users.

The existence of open ports is an invitation for intruders to enter your system. To minimize the risk of unauthorized access to a machine, only necessary, business-related ports should be open. Further, the application residing at these ports should be secured to the extent possible.

Though these machines may be physically located within COT and managed by COT, KYTC management is ultimately responsible for the security of KYTC resources.

Recommendation

We recommend that KYTC coordinate with COT to ensure that all noted open ports are reviewed on machines housing KYTC resources to ensure there is a specific business-related purpose requiring the port to be open. If not required, then that port should be closed. If the port is necessary, then KYTC should ensure adequate logical security controls are implemented to prevent unauthorized access.

Management's Response and Corrective Action Plan

The Cabinet agrees that KYTC should coordinate with COT to ensure that all noted open ports are reviewed on machines housing KYTC resources to ensure there is a specific business-related purpose requiring the port to be open. KYTC is working with COT and other service providers to review and remedy potential issues. We have already identified some services that can be disabled. A number of the open ports/services are necessary for application or management support. The projected completion date is July 15, 2005.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-TC-13: The Transportation Cabinet Should Ensure That Security Information Leakage For Agency Computer Devices Is Minimized

During the security vulnerability testing performed for FY 05 on machines owned by KYTC, we noted instances where machines within the KYTC network provided information to anonymous users that could potentially help an intruder with developing details for an attack.

Using standard scanning tools, we reviewed the machine names and other remarks for all machines located within KYTC domains. We noted two (2) machines with remarks that identified the machines as primary or backup domain controllers. We also identified critical sensitive information concerning one KYTC host machine that was being provided through Internet search engines such as Google. These search engines index and cache host information at various intervals. Information was revealed on this host machine to the Internet at large that should not be viewable such as: viewable and downloadable Microsoft files, batch files, directory structures, active server page scripts, Java scripts, and Oracle server help files. These searchable files could be used in different ways to attempt to gain control of this machine and then further compromise other KYTC machines.

We also ran other vulnerability assessment tools during the fiscal year on 97 machines within KYTC domains to determine if they would return information on Local Security Authority (LSA), Password Policies, or Valid User, Group, or Share Lists. This information was not obtainable on most KYTC machines. However, the following table depicts the number of machines that did provide this information.

Type of Information	Number of Machines Returning Information	Percentage of 97 Machines Tested
LSA	5	5.15 %
Password Policies	4	4.12%
Valid User List	4	4.12%
Valid Group List	4	4.12%
Valid Share List	4	4.12%

If a machine is set up to provide excessive information associated with the machine, then an intruder could use this provided information in attempts to gain unauthorized access to the machine or network.

An agency's domain and machine information that is accessible to the world at large through inquiry tools should be kept at a minimum. Agencies should ensure that information such as location, accounts associated with the machine, type of data residing on the machine, and the machine's role is not divulged or is stated in the most minimal of terms. To accomplish this, an agency can set devices to not respond to certain types of inquiries, can use naming conventions that obscure the purpose of machines, disable directory browsing on the web server, and eliminate or limit comments on machine activity.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-TC-13: The Transportation Cabinet Should Ensure That Security Information Leakage For Agency Computer Devices Is Minimized (Continued)

Though these machines may be physically located within COT and managed by COT, KYTC management is ultimately responsible for the security of KYTC resources.

Recommendation

We recommend KYTC coordinate with COT to ensure the necessary actions are taken on machines housing KYTC resources to prevent accessibility of sensitive domain or machine information by web browsers and anonymous users. The agency should consider renaming critical servers to prevent advertisement as to their purpose, and restrictions should be placed on what types of responses machines provide based on certain inquiries.

Management's Response and Corrective Action Plan

KYTC agrees that these devices can be further protected to reduce risks and potential vulnerabilities.

- *KYTC will work with COT to reduce access/services to these devices. The projected completion date is June 15, 2005.*
- *KYTC will create a less identifying naming structure for infrastructure equipment and rename these devices. The projected completion date is December 31, 2005.*

FINDING 05-TC-14: The Transportation Cabinet Should Ensure That All Web Servers Have Updated Software And Security Patches Installed

During the FY 05 security vulnerability assessments performed for machines owned by KYTC, our examination revealed web service vulnerabilities present on three (3) machines. These vulnerabilities could be exploited to compromise and possibly gain administrative control of these machines. These vulnerabilities included identified potential buffer overflows and cross-site scripting capabilities, as well as default installation scripts and web pages.

The vulnerabilities identified appear to result from outdated or unpatched software. These vulnerabilities could possibly allow an attacker from a remote location to execute arbitrary code and gain administrative control of the agency's systems.

To maintain adequate security it is necessary to ensure all required web services are appropriately updated and all applicable security patches have been installed.

FINANCIAL STATEMENT FINDINGS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 05-TC-14: The Transportation Cabinet Should Ensure That All Web Servers Have Updated Software And Security Patches Installed (Continued)**

Though these machines may be physically located COT and managed by COT, KYTC management is ultimately responsible for the security of KYTC resources.

Recommendation

We recommend that KYTC coordinate with COT the necessary actions to properly secure these machines to ensure that web services on each identified machine are appropriately updated or patched, and take other security measures as needed to eliminate the specified web service vulnerabilities.

Management's Response and Corrective Action Plan

KYTC has worked with COT to review these issues and agree that these devices are not operating at the latest release level due to application support issues. The various support groups will work to manage risks and upgrade the appropriate components as application support issues are tested. The Oracle components are regularly upgraded by COT support staff. The projected completion date is December 31, 2005.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Control and/or
Reportable Instances of Noncompliance*****FINDING 05-TC-15: The Transportation Cabinet Should Ensure All Federal Expenditures Are Allowable**

State Agency: Transportation Cabinet

Federal Program: 20.205, 20.600 – Highway Planning and Construction, State and
Community Highway Safety

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs/Davis Bacon

Amount of Questioned Cost: \$559,816

Based on information provided by Kentucky Transportation Cabinet (KYTC) Acting Secretary and a review of the case file maintained by the KYTC Office of Inspector General (OIG) related to this matter, the Auditor of Public Accounts (APA) has determined that significant financial irregularities have been documented regarding expenditures submitted and paid by KYTC. This leads us to question all federal funds expended on projects performed by this vendor.

The APA has advised the United States Department of Transportation (USDOT) OIG of this matter for further final determination on whether to disallow these costs after the investigation is completed.

The funding for the Whitley County I-75 bench-clearing project involving the questionable vendor payments consists of three different projects in MARS. Two of these projects are state projects (\$100,000 each) and one is Federal (\$375,000).

The investigation conducted by KYTC OIG and subsequently referred to other federal and state law enforcement agencies, as well as the APA clearly documents the questionable payments that may constitute fraud, including certain actions involving a local government official.

Federal funds can be used only to reimburse costs that are: (a) incurred subsequent to the date of authorization to proceed, except for certain property acquisition costs permitted under 23 USC 108; (b) in accordance with the conditions contained in the project agreement and the plans, specifications, and estimates (PS&E); (c) allocable to a specific project; and (d) claimed for reimbursement subsequent to the date of the project agreement (23 CFR sections 1.9, 630.106, and 630.205).

The Davis-Bacon Act, as amended, requires that each contract over \$2,000 to which the United States or the District of Columbia is a party for the construction, alteration, or repair of public buildings or public works shall contain a clause setting forth the minimum wages to be paid to various classes of laborers and mechanics employed under the contract. Under the provisions of the Act, contractors or their subcontractors are to pay workers

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Control and/or
Reportable Instances of Noncompliance*****FINDING 05-TC-15: The Transportation Cabinet Should Ensure All Federal Expenditures Are Allowable (Continued)**

employed directly upon the site of the work no less than the locally prevailing wages and fringe benefits paid on projects of a similar character. The Davis-Bacon Act directs the Secretary of Labor to determine such local prevailing wage rates.

Recommendation

On August 23, 2005, our office notified the USDOT OIG about this open investigation. Federal funds involved in these projects include CFDA 20.205 in the amount of \$345,868 and CFDA 20.600 funds in the amount of \$213,948 for a total of \$559,816.

The KYTC should seek guidance from the USDOT OIG regarding the status of the investigation, resolution of questioned costs and the eligibility of this vendor regarding award of any further state contracts.

Management's Response and Corrective Action Plan

We agree that this situation should be monitored closely by the Transportation Cabinet. The matter is under investigation by our Inspector General's Office, the FBI and our internal audit staff. While these investigations are in progress we will continue to monitor the situation. When the investigations are done we will determine if funding needs to be returned to FHWA and the prudent course of action to take with the contractor.

FINDING 05-TC-16: The Transportation Cabinet Should Improve Procedures To Ensure Federal Reports Are Prepared Accurately

State Agency: Transportation Cabinet

Federal Program: 20.205 - Highway Planning and Construction

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Cost: None

The Kentucky Transportation Cabinet (KYTC) is responsible for submitting an "Office of Real Estate Services Annual Program Statistics Report" to the regional Federal Highway Administration (FHWA) each federal fiscal year. We tested the FY05 report and found that some of the amounts recorded within the report were inaccurate. The report inaccurately under reported the amounts falling under the acquisition categories (Tables B and C) by \$312,751, and under reported the amounts falling into the relocation categories (Tables D, E, and F) by \$145,800.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Control and/or
Reportable Instances of Noncompliance*****FINDING 05-TC-16: The Transportation Cabinet Should Improve Procedures To
Ensure Federal Reports Are Prepared Accurately (Continued)**

The Division of Right of Way and Utilities has improved their record keeping procedures by recording reporting categories in the accounting system for acquisition and relocation expenditures. Also, the agency has improved their record keeping, by maintaining monthly spreadsheets with information related to the statistical report. However, it appears that management is not performing an in-depth review of this report. Most of the errors were caused by data entry error in the backup documentation. The errors occurred while copying and pasting items into a yearly total sheet. Items were either left off or added twice to cause the amount reported on the FHWA Statistical Report to be inaccurate.

According to 49 CFR 24 Appendix B - Statistical Report Form, "Report Coverage -This report covers all relocation and real property acquisition activities under a Federal or federally assisted project or program subject to the provisions of the Uniform Act." All information and amounts contained in the FHWA Statistics Report should be accurate and trace to supporting documentation on file at the agency. TC is responsible for submitting an "Office of Real Estate Services Annual Program Statistics" to the regional Federal Highway Administration (FHWA) each federal fiscal year. We tested the FY 05 Report and found several discrepancies. There were numerous totals on the report that did not agree to supporting documentation. These were not major discrepancies, however, they were not accurate. This report is often times electronic, however, this year, FHWA did not provide an electronic version. TC simply submitted a handwritten report to FHWA with no transmittal letter. The report submitted lacked the Division, Date of Report and reporting period. Auditor had to contact the FHWA to determine when the report was submitted. We also found that amounts recorded within the report were inaccurate.

Great improvements have been made by the Division of Right of Way and Utilities with this report. Recommendations from our FY 03 audit have been put in place accordance with TC's corrective action plan. However, it appears that an in-depth review of this report is not being performed by management.

49 CFR subpart 24, Appendix B states "Submit an original and two copies of this report to (Name and Address of Federal Agency) as soon as possible after September 30, but NOT LATER THAN NOVEMBER 15." This report was not submitted until January 10, 2005, which is 3 months late.

Recommendation

Although the record keeping by the agency has drastically improved, it still appears that Management is not performing an in-depth review of the amounts reported on the FHWA Statistical Report. We recommend the Division of Right of Way and Utilities improve policies and procedures for reviewing figures reported in the Statistical Report.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Control and/or
Reportable Instances of Noncompliance*****FINDING 05-TC-16: The Transportation Cabinet Should Improve Procedures To
Ensure Federal Reports Are Prepared Accurately (Continued)**

Management's Response and Corrective Action Plan

The Cabinet maintains that the deficiencies cited herein are a direct result of implementing system changes requested by the Office of the Auditor of Public Accounts in its Fiscal Year 2004 Audit. Our corrective action plan will be to: 1) Change reporting categories to reflect more specific transactions, which should prevent charges being reported to the wrong category. (2) Perform a review of the report by a Right of Way Program Specialist from the respective branches to ensure accuracy. (3) Perform an in-depth review of end-of-the month transactions to ensure that the costs are being reported in the proper accounting period. After conversion to the State's new financial accounting system, eMars, we plan to review our reporting capabilities and develop more accurate tracking for our acquisition and relocation expenditures.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
------------------------	---------------------------	----------------	------------------------	-----------------------------	-----------------

Reportable Conditions

(1) Audit Findings that have been fully corrected:

FY 04	04-TC-9	The Transportation Cabinet Should Improve The Change Order Process	20.205	0	Resolved in FY05.
FY 04	04-TC-10	The Transportation Cabinet Should Improve Procedures To Ensure Federal Reports Are Submitted Timely	20.500 & 20.509	0	Resolved in FY05.
FY 04	04-TC-12	The Transportation Cabinet Should Improve Review And Authorization Procedures For Relocation Payments	20.205	0	Resolved in FY05.
FY 04	04-TC-13	The Transportation Cabinet Should Ensure FHWA Approval Is Obtained Before Relocation Payments Are Made	20.205	0	Resolved in FY05.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions</u>					
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 04	04-TC-1	The Transportation Cabinet Should Improve Inventory Procedures For Maintenance Materials	N/A	0	See 05-TC-2.
FY 04	04-TC-2	The Transportation Cabinet Should Implement Procedures To Ensure An Accurate Conversion Of Data To New Systems	N/A	0	See 05-TC-3.
FY 04	04-TC-3	The Transportation Cabinet Should Implement Procedures To Ensure The Integrity Of The Highway Information System Database	N/A	0	See 05-TC-4.
FY 04	04-TC-4	The Transportation Cabinet Should Improve Data Retention Practices	N/A	0	See 05-TC-5.
FY 04	04-TC-5	The Transportation Cabinet Should Improve Audit Trail Procedures For Database Actions	N/A	0	See 05-TC-6.
FY 04	04-TC-11	The Transportation Cabinet Should Improve Procedures To Ensure Federal Reports Are Prepared Accurately	20.205	0	See 05-TC-16.
FY 03	03-TC-3	The Transportation Cabinet Should Implement Procedures To Ensure An Accurate Conversion of Data To New Systems	N/A	0	See 05-TC-3.
FY 03	03-TC-4	The Transportation Cabinet Should Implement Procedures To Ensure The Integrity Of The Highway Information System Database	N/A	0	See 05-TC-4.
FY 03	03-TC-5	The Transportation Cabinet Should Improve Data Retention Practices	N/A	0	See 05-TC-5.
FY 03	03-TC-6	The Transportation Cabinet Should Improve Audit Trail Procedures For Database Actions	N/A	0	See 05-TC-6.
FY 03	03-TC-12	The Transportation Cabinet Should Maintain Documentation That Supports Figures Reported In the Annual Federal Highway Administration Statistics Report.	20.205	0	See 05-TC-16.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<i>(2) Audit findings not corrected or partially corrected: (Continued)</i>					
FY 02	02-TC-02	The Transportation Cabinet Should Develop Internal Controls To Ensure Accurate Presentation Of the Annual Federal Highway Administration Statistics Report	20.205	0	See 05-TC-16.
FY 02	02-TC-03	The Transportation Cabinet Should Ensure The Annual Federal Highway Administration Report is Compiled In Compliance With Federal Guidelines	20.205	0	See 05-TC-16.

(3) Corrective action taken is significantly different from corrective action previously reported:

No findings for this section.

(4) Audit finding is no longer valid or does not warrant further action:

No findings for this section.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
------------------------	---------------------------	----------------	------------------------	-----------------------------	-----------------

Other Matters

(1) Audit findings that have been fully corrected:

FY 04	04-TC-6	The Kentucky Transportation Cabinet Password Policy Should Be Consistently Applied To All Local Area Network Servers	N/A	0	Resolved in FY05.
-------	---------	--	-----	---	-------------------

(2) Audit findings not corrected or partially corrected:

FY 04	04-TC-7	The Kentucky Transportation Cabinet Should Ensure All Accounts On Its Agency Machines Are Necessary	N/A	0	Similar issues found but not with same machines. New comment developed for FY05.
-------	---------	---	-----	---	--

See 05-TC-11.

FY 04	04-TC-8	The Kentucky Transportation Cabinet Should Ensure All Open Ports On Agency Machines Have A Business-Related Purpose	N/A	0	Similar issues found but not with same machines. New comment developed for FY05.
-------	---------	---	-----	---	--

See 05-TC-12.

FY 03	03-TC-13	The Transportation Cabinet Should Improve Inventory Procedures	N/A	0	See 05-TC-02.
-------	----------	--	-----	---	---------------

(3) Corrective action taken is significantly different from corrective action previously reported:

No findings for this section.

(4) Audit finding is no longer valid or does not warrant further action:

No findings for this section.

